



SIOR Index — Office and Industrial Markets Rise 8.3 points in Fourth Quarter 2011

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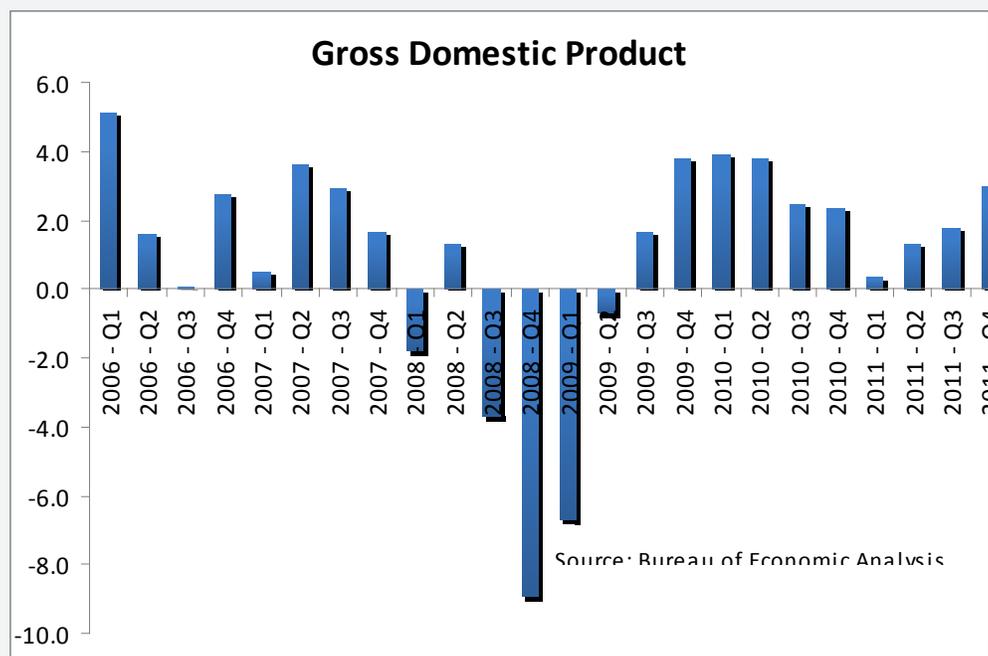
NAR Economic Overview

Economic activity closed 2011 with a moderately positive performance, driven by increased consumer and business spending. With employment trends moving in an upward direction, the outlook for commercial real estate points to a stronger 2012.

Based on the Bureau of Economic Analysis's estimate, gross domestic product (GDP) rose 3.0 percent in the fourth quarter. Consumer spending provided a much-needed boost to the year-end tally. The other components of GDP—business spending, net exports held steady while government expenditures were negative.

Following barely positive advances throughout the year, consumer spending rose 2.2 percent in the last quarter. Spending on goods outpaced spending on services by a wide margin. Consumers focused their dollars on durable goods, which gained 15.3 percent. With the average age of U.S. vehicles on the road reaching record highs, it was not surprising that sales of vehicles jumped 37.9 percent. Consumers also upped their spending on furniture, household and recreational vehicles by 8.7 percent and 11.7 percent, respectively. In the nondurable goods category, purchases of clothing and shoes propped up the holiday sales, rising 3.3 percent.

Business investments posted the weakest rate of growth in two years, advancing only 2.8 percent during the fourth quarter. While spending on equipment and software remained steady at 4.8 percent, spending on structures declined 2.6 percent. Companies continued investing in industrial equipment (up 17.9%), computers and peripherals (up 15.4%), and transportation equipment



(up 17.8%). Trade remained a bright spot during the fourth quarter, as both exports and imports increased by 4.3 percent and 3.8 percent, respectively.

Government spending—the other major component of GDP—declined 4.4 percent, due to budget cuts at the federal, state and local levels. At the federal level, defense cuts of 12.1 percent outweighed increases in nondefense spending. Squeezed by lower revenues, state and local governments continued to slash spending for the sixth consecutive quarter.

Employment closed the year on an upbeat note. After the weak showing of the third quarter, the fourth quarter of 2011 recorded a net 447,000 payroll jobs added to the economy. The bulk of that gain came during December, when private businesses added 220,000 positions. Over the quarter, private service-providing industries accounted for 437,000 of total jobs created. In a positive development for commercial real estate, professional and business services gained 141,000 jobs, education and health added 109,000 jobs, while information, financial activities and leisure/hospitality industries contributed an additional 95,000 jobs.

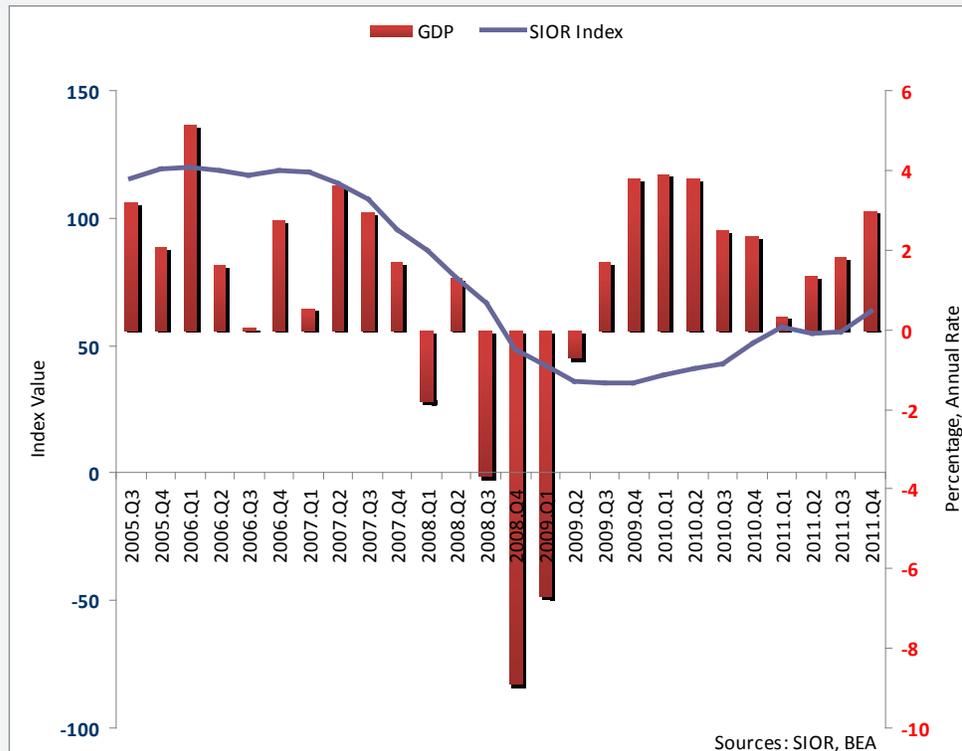
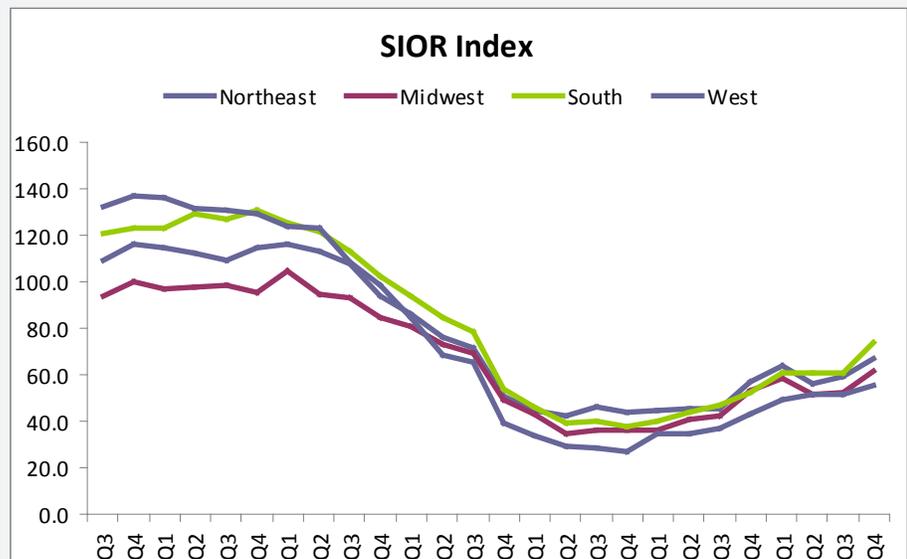
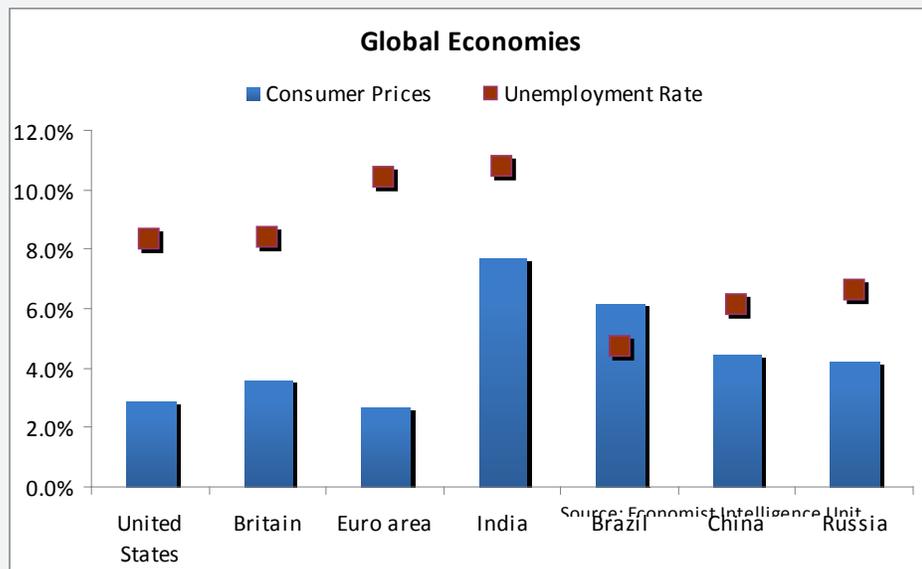
The trends were also mirrored in the figures for first-time unemployment insurance claims, which broke through the 400,000-per-week floor in November. In addition, the number of people drawing unemployment benefits steadily declined over the quarter toward 3.6 million (it was 4.2 million during the fourth quarter 2010). The unemployment rate dropped from 9.0 percent in September to 8.5 percent in December.

In light of the broader trends, consumers embraced the end of 2011 with a cautious sense of optimism. The two main measures of consumer confidence and sentiment both showed improvements in the last three months of the year. The consumer confidence index compiled by the Conference Board—a measure that considers respondents' general feelings about the job market and their finances—increased from 40.9 in October to 64.8 in December. Meanwhile, the University of Michigan survey of consumer sentiment also increased during the fourth quarter, from 60.8 in October to 69.9 in December.

SIOR Index Results

Amid broader economic upswings, office and industrial spaces are turning the corner. The fourth quarter SIOR survey mirrors the trends in the national economy.

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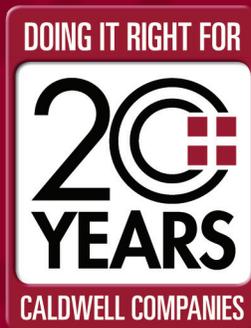
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The Commercial Real Estate Index, representing fourth quarter 2011 data, advanced 8.3 points. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, rose 63.8 from 55.5 in the third quarter. The office sector increased 9.3 points from an index value of 51.7 to 61.0. The industrial sector rose 8.0 points to 65.9.

The commercial markets posted a strong finish in the fourth quarter. Geographically, all four regions witnessed improved conditions. Commercial markets in the South posted the largest advance during the fourth quarter—12.7 points to an index value of 73.5. Markets in the Midwest and Northeast advanced 8.8 points and 7.7 points, respectively. Markets in the West rose 3.7 points, to an index value of 55.2. In terms of nominal index value, the South continues to register the best overall market conditions.

In an encouraging sign, leasing activity improved, and practitioners reported vacancy rates closing in on historical averages. Some respondents mentioned declining vacancies for their office and industrial markets. While concessions remain the norm for 87 percent of respondents, one in four practitioners found rents in line with or slightly above long-term averages. In addition, subleasing availability continued to improve, with only 29 percent of SIORs reporting ample sublease space.

Construction of new commercial space remains at historically low levels—74 percent of practitioners mentioned there was no new construction in their market. Development conditions registered a slight uptick, but favor buyers, with acquisition prices lower than construction costs in 78 percent of the markets. An improving economy reflected well upon local markets, as 84 percent of SIORs found the national economy to have a negative impact upon their markets (compared with 92 percent in the third quarter).

Based on the results of the fourth quarter survey, commercial markets improved upon the flat performance of the prior quarter. SIOR members expect conditions to improve going forward into 2012, with 67 percent of respondents anticipating a better market in the next three months. 